Basel III Pillar 3 Disclosures
October 31, 2024

Overview

VersaBank (the "Bank") adopted an electronic business-to-business model in 1993, becoming (to its knowledge) the world's first financial institution with a branchless model. It obtains all of its deposits and conducts the majority of its lending digitally through financial intermediaries who subsequently engage with the actual depositors and borrowers. VersaBank is focused on increasing earnings by concentrating on underserved markets that support more attractive pricing and returns for its products, leveraging existing distribution channels to deliver its financial products to these chosen markets and expanding its diverse deposit gathering network that provides efficient access to a range of low-cost deposit sources in order to maintain a low cost of funds.

In Canada, the Bank holds a Canadian Schedule 1 chartered bank licence and is regulated by the Office of the Superintendent of Financial Institutions ("OSFI"). In the United States, the Bank, through its wholly owned subsidiary, VersaBank USA N.A., holds a national Office of the Comptroller of the Currency ("OCC") charter and is regulated by the OCC.

Basis of preparation

This document represents the Basel III Pillar 3 disclosures for the Bank. These disclosures are made pursuant to the Office of the Superintendent of Financial Institutions (OSFI) requirements, which are based on global standards established by the Bank of International Settlements, Basel Committee on Banking Supervision (BCBS). The Bank follows the Pillar 3 Disclosure requirements for Small and Medium-Sized Banks (SMSBs) and is classified as a Category 2 SMSB.

The amounts disclosed in this document are based on the Bank's condensed consolidated interim financial statements, which reflect the financial position and results of operations of the Bank consolidated with the financial position and results of operations of its subsidiaries. The condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard (IAS) 34. The condensed consolidated interim financial statements follow the same accounting policies and methods of computation as in the Bank's most recent annual financial statements including the accounting requirements specified by OSFI, and reflect, where necessary, management's best estimates and judgments.

The Bank's Credit risk – General information about credit risk (CRA) and Operational risk – General qualitative information on the Bank's operational risk framework (ORA) are disclosed in the Bank's Audited Consolidated Audit Financial Statements and Management's Discussion and Analysis for the year ended October 31, 2024, available online at www.versabank.com/investor-relations.

This report is unaudited and is reported in thousands of Canadian dollars, unless otherwise noted.

The report is available in the Regulatory section of the Bank's website at www.versabank.com and on OSFI's Financial Data for Banks website (Financial data - Office of the Superintendent of Financial Institutions (osfi-bsif.gc.ca))

Item #	Annual Qualitative Requirements	2024 Annual Report: Management's Discussion and Analysis
		Section reference
CRA	**General qualitative information about credit risk**	
	SMSBs must describe their risk management objectives and policies for credit risk, focusing in particular on:	
(a)	How the business model translates into the components of the SMSB's credit risk profile	Credit Risk
(b)	Criteria and approach used for defining credit risk management policy and for setting credit risk limits	Credit Risk
(c)	Structure and organisation of the credit risk management and control function	Credit Risk
(d)	Relationships between the credit risk management, risk control, compliance and internal audit functions	Credit Risk
(e)	Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors	Credit Risk
ORA	**General qualitative information on a bank's operational risk framework**	
	SMSBs must describe:	
(a)	Their policies, frameworks and guidelines for the management of operational risk.	Operational Risk
(b)	The structure and organisation of their operational risk management and control function.	Operational Risk
(c)	Their operational risk measurement system (ie the systems and data used to measure operational risk in order to estimate the operational risk capital charge).	Operational Risk
(d)	The scope and main context of their reporting framework on operational risk to executive management and to the board of directors.	Operational Risk
(e)	The risk mitigation and risk transfer used in the management of operational risk. This includes mitigation by policy (such as the policies on risk culture, risk appetite, and outsourcing), by divesting from high-risk businesses, and by the establishment of controls. The remaining exposure can then be absorbed by the bank or transferred. For instance, the impact of operational losses can be mitigated with insurance.	Operational Risk

KM1: Key Metrics (at consolidated group level)

	(in thousands of Canadian dollars)	**October 31 2024**	**July 31 2024**	**April 30 2024**	**January 31 2024**	**October 31 2023**
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	$ 373,503	$ 384,496	375,153	363,798	350,812
2	Tier 1	373,503	398,143	388,800	377,445	364,459
3	Total capital	481,176	504,112	494,297	485,309	476,005
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	3,323,595	3,273,524	3,224,822	3,194,696	3,095,092
	Risk-based capital ratios as a percentage of RWA					
5	CET1 ratio (%)	11.24%	11.75%	11.63%	11.39%	11.33%
6	Tier 1 ratio (%)	11.24%	12.16%	12.06%	11.81%	11.78%
7	Total capital ratio (%)	14.48%	15.40%	15.33%	15.19%	15.38%
	Basel III Leverage ratio					
13	Total Basel III leverage ratio exposure measure	5,062,129	4,664,205	4,547,910	4,472,569	4,388,595
14	Basel III leverage ratio (row 2 / row 13)	7.38%	8.54%	8.55%	8.44%	8.30%

CC1: Composition of capital for SMSBs

	(in thousands of Canadian dollars)	October 31 2024	July 31 2024	April 30 2024
	Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	$ 218,095	$ 217,613	$ 217,541
2	Retained earnings	181,238	177,584	168,776
3	Accumulated other comprehensive income	(130)	141	139
6	Common Equity Tier 1 capital before regulatory adjustments	399,203	395,338	386,456
	Common Equity Tier 1 capital: regulatory adjustments			
28	Total regulatory adjustments to Common Equity Tier 1	(25,700)	(10,842)	(11,303)
29	Common Equity Tier 1 capital (CET1)	373,503	384,496	375,153
	Additional Tier 1 capital: regulatory adjustments			
44	Additional Tier 1 capital (AT1)	-	13,647	13,647
45	Tier 1 capital (T1 = CET1 + AT1)	373,503	398,143	388,800
	Tier 2 capital: instruments and provisions			
47	Directly issued capital instruments subject to phase out from Tier 2	104,370	103,568	103,095
50	Eligible Stage 1 and Stage 2 allowance	3,303	2,401	2,402
51	Tier 2 capital before regulatory adjustments	107,673	105,969	105,497
	Tier 2 capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	-	-	-
58	Tier 2 capital (T2)	107,673	105,969	105,497
59	Total capital (TC = T1 + T2)	481,176	504,112	494,297
60	Total risk weighted assets	3,323,595	3,273,524	3,224,822
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	11.24%	11.75%	11.63%
62	Tier 1 (as a percentage of risk weighted assets)	11.24%	12.16%	12.06%
63	Total capital (as a percentage of risk weighted assets)	14.48%	15.40%	15.33%
	OSFI target			
69	Common Equity Tier 1 capital target ratio	7.0%	7.0%	7.0%
70	Tier 1 capital target ratio	8.5%	8.5%	8.5%
71	Total capital target ratio	10.5%	10.5%	10.5%

LR2: Leverage Ratio Common Disclosure Template

	(in thousands of Canadian dollars)	October 31 2024	July 31 2024	April 30 2024
	On-balance sheet exposures			
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	$ 4,838,484	$ 4,516,436	$ 4,388,320
4	(Asset amounts deducted in determining Tier 1 capital)	(25,700)	(10,842)	(11,303)
5	(sum of lines 1 to 4)	4,812,784	4,505,594	4,377,017
	Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	701,104	433,661	510,509
18	(Adjustments for conversion to credit equivalent amounts)	(451,759)	(275,050)	(339,616)
19	Off-balance sheet items (sum of lines 17 and 18)	249,345	158,611	170,893
	Capital and total exposures			
20	Tier 1 Capital	373,503	398,143	388,800
21	Total Exposures (sum of lines 5, 11, 16 and 19)	5,062,129	4,664,205	4,547,910
	Leverage ratio			
22	Basel III leverage ratio	7.38%	8.54%	8.55%